



Investment Office

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AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Selection of U.S. Equity Growth Managers for Spring-Fed Pools

II. PROGRAM: Global Equity

III. RECOMMENDATION: (1) Approve the following managers for inclusion in the U.S. Equity Active Growth Manager Spring-Fed Pool:

Goldman Sachs Asset Management
Jacobs Levy Equity Management
Marvin & Palmer Associates, Inc.
Turner Investment Partners

(2) Approve the following managers for inclusion in the U.S. Equity Enhanced Indexing Growth Manager Spring-Fed Pool:

Intech (Broad Large Capital Growth)
Intech (Large Capital Growth)

(3) Approve the use of annual review contracts for both of these U.S. Equity Growth Manager Spring-Fed Pools.

Wilshire Associate's opinion letter is shown in Attachment 1. Wilshire's conflict of interest disclosure is shown in Attachment 2.

IV. ANALYSIS:

Background

At its December 12, 2005 meeting, the Investment Committee approved the issuance of a Request for Proposal (RFP) with a Spring-Fed Pool feature for domestic equity growth managers.

Manager Search Process

The RFP, which provides for optional Investment Committee interviews of finalists, was issued on January 13, 2006. Proposals were sent to firms identified by staff and Wilshire Associates. In addition, the RFP was advertised in *Pensions and Investments*.

CalPERS received 44 proposals for U.S. equity growth investing, of which all but three met the minimum qualifications listed in the RFP. All 41 qualifying proposals were read and scored by staff according to the criteria listed in the RFP. The scoring categories included:

- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Performance
- Composite / Product Information

Nine firms, representing eleven proposals, were invited to interview with staff at CalPERS' offices on June 21 and June 22, 2006. Andrew Junkin from Wilshire Associates was in attendance at the interviews. The interviews were scored by staff in accordance with the criteria listed in the RFP. The scoring categories included:

- Business Strategy
- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Risk Management

Fee proposal scores were combined with the Technical Proposal and Staff Interview scores to determine the firms to be recommended to the Investment Committee.

Based on the results of the RFP process, staff and Wilshire recommend four products for inclusion in the U.S. Equity Active Growth Manager Spring-Fed Pool as shown below and two products for inclusion in the U.S. Equity Enhanced Indexing Growth Manager Spring-Fed Pool also shown below.

U.S. Equity Active Growth Managers

1. Goldman Sachs Asset Management
2. Jacobs Levy Equity Management
3. Marvin & Palmer Associates, Inc.
4. Turner Investment Partners

U.S. Equity Enhanced Indexing Growth Managers

1. Intech (Broad Large Capital Growth)
2. Intech (Large Capital Growth)

Per RFP, staff seeks determination by the Investment Committee to either interview Finalists or approve staff recommendations.

Annual Review Contracts

Staff recommends the use of annual review contracts, which provide for an undefined duration. This would be consistent with the contracting procedure used for all other investment management contracts. This recommendation is necessary to fulfill CalPERS' fiduciary duties to its members because the use of annual review contracts is a more efficient use of CalPERS staff, Board time, and other resources. The award of contracts without a defined duration is allowed under Board Resolution 92-04B-4.

Funding

Funding of managers for the U.S. Equity Growth Manager Spring-Fed Pools will come primarily from passively managed public equity assets.

V. STRATEGIC PLAN:

This agenda item advances CalPERS Strategic Plan, Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Funding to the new managers will expand the Global Equity opportunity set and is expected to enhance risk-adjusted returns in this asset class.

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